

Message Text

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PAGE 01 LAGOS 02750 051622 Z

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ACTION AF-18

INFO OCT-01 ADP-00 CIAE-00 DODE-00 PM-09 H-02 INR-10 L-03

NSAE-00 NSC-10 PA-03 RSC-01 PRS-01 SS-15 USIA-12

AID-20 COME-00 EB-11 FRB-02 TRSE-00 XMB-07 OPIC-12

CIEP-02 LAB-06 SIL-01 SAL-01 OMB-01 STR-08 CEA-02

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TAGS: EFIN, NI

SUBJECT: FINANCE COMMISSIONER DISCUSSES FY 73/74 BUDGET

REF : LAGOS 2655

1. BEGIN SUMMARY: IN APRIL 3 PRESS CONFERENCE FEDERAL FINANCE COMMISSIONER, ALHAJI SHEHU SHAGARI, PROVIDED FULLER DETAILS OF MANY HIGHLIGHTS OF GENERAL GOWON'S BUDGET MESSAGE AND EXPLAINED SOME OF THE NEW ECONOMIC POLICIES. SHAGARI MADE IT CLEAR THAT MUCH OF THE BASIS FOR THE NEW RELAXATION OF FOREIGN EXCHANGE CONTROLS WAS THE HEALTHY AND IMPROVING LEVEL OF FOREIGN EXCHANGE RESERVES. END SUMMARY.

2. IN IMPLEMENTATING THE INDIGENIZATION DECREE SHAGARI ESTIMATED THAT 30 MILLION NAIRA (45 MILLION DOLLARS) WILL BE REQUIRED TO BUY THOSE FIRMS NOW RESERVED SOLELY TO NIGERIANS AND 60 MILLION NAIRA (90 MILLION DOLLARS) NEEDED TO FUND OWNERSHIP CHANGE OVER FOR FIRMS SUBJECT TO 40 PERCENT NIGERIAN PARTICIPATION. FOREIGNERS SELLING OFF THESE ASSETS WERE GIVEN ASSURANCES THAT THEY

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PAGE 02 LAGOS 02750 051622 Z

COULD EXPATRIATE THEIR CAPITAL QUITE QUICKLY. FOREIGN SELLERS OF THOSE BUSINESSES NOW WHOLLY RESERVED TO NIGERIANS AND VALUED AT UP TO 225,000 DOLLARS MAY REPATRIATE 100 PERCENT OF THE SALES PROCEEDS WITHIN, AT MOST, THREE YEARS. LARGER INVESTORS IN THIS CATEGORY MAY NEGOTIATE SPECIAL RATES OF REPATRIATION WITH THE FMG. HE ALSO NOTED THAT "SPECIAL SYMPATHY" WILL BE GIVEN TO REPATRIATION REQUESTS BY EXPATRIATE INVESTORS WHO ARE LEAVING NIGERIA PERMANENTLY. THOSE FOREIGN FIRMS SUBJECT TO 40 PERCENT NIGERIAN OWNERSHIP WILL BE EXPECTED TO REINVEST 50 PERCENT OF SALES PROCEEDS IN NIGERIA AND REPATRIATE THE REMAINDER ON THE SAME TERMS ACCORDED TO INVESTORS IN SECTORS WHOLLY RESERVED TO NIGERIANS.

3. SHAGARI ESTIMATED THAT 90 MILLION DOLLARS WOULD BE REQUIRED TO ALLOW FOREIGN FIRMS TO REPATRIATE 100 PERCENT OF 1971 EARNINGS AND 25 PERCENT OF 1972 PROFITS AS PROMISED IN THE BUDGET MESSAGE. HE ADVISED FOREIGN FIRMS, HOWEVER, TO USE PART OF PROFITS TO REDUCE BORROWING FROM LOCAL BANKS AS "IT IS INEQUITABLE THAT PROFITS MADE LARGELY FROM LOCAL CAPITAL BE REPATRIATED WHOLESALE."

4. FINANCE COMMISSIONER ALSO NOTED CENTRAL BANK FOREIGN EXCHANGE RESERVES STOOD AT 365 MILLION DOLLARS AT CLOSE OF 1972 AND HAVE INCREASED A "MODEST AMOUNT" SINCE THEN. THE FOREIGN EXCHANGE BUDGET FOR FY 73/74 CONTEMPLATES RECEIPTS TOTALLING 2.1 BILLION DOLLARS AND EXPENDITURES OF 2.0 BILLION. IN AMPLIFYING GENERAL GOWON'S BUDGET MESSAGE, SHAGARI CONCLUDED THAT THE PLANNED ORDINARY BUDGET SURPLUS OF 423 MILLION DOLLARS WILL BE SUPPLEMENTED BY AN ESTIMATED 444 MILLION DOLLARS BALANCE (APPARENTLY CARRY-OVER FROM PRECEDING YEAR) IN THE FEDERAL DEVELOPMENT FUND TO FINANCE THE UNPRECEDENTED LEVEL OF CAPITAL EXPENDITURE OF 915 MILLION DOLLARS. SOME ADDITIONAL FOREIGN BORROWING FOR DEVELOPMENT WILL BE NECESSARY, SHAGARI INDICATED.

5. ALTHOUGH MOST IMPORT TARIFFS ARE NOT BEING RAISED AS AN ANTI-INFLATIONARY MEASURE, LOCAL TEXTILE AND TIRE INDUSTRIES ARE TO BE FURTHER PROTECTED FROM LIMITED OFFICIAL USE

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PAGE 03 LAGOS 02750 051622 Z

PORT COMPETITION. DUTIES ARE BEING HIKED ON CHILDREN'S

GARMENT TO BOOST THE UTILIZATION OF LOCALLY PRODUCED FABRICS. DUTIES ON IMPORTS OF COMPETITIVE EXPENSIVE FABRICS HAS BEEN RAISED FROM 84 AND 96 Kobo PER METER (OR 100 PERCENT AD VALOREM) TO 100 Kobo (OR 100 PERCENT AD VALOREM). TARIFFS ON IMPORTS OF CHEAPER FABRICS WILL RISE FROM 46 Kobo PER METER (OR 66.6 PERCENT AD VALOREM) TO 50 Kobo (OR 75 PERCENT AD VALOREM). THE COST OF PRODUCING TEXTILES IN NIGERIA WILL ALSO BE LOWERED THROUGH A TEMPORARY LOWERING OF DUTY ON IMPORTED LONG STAPLE COTTON FROM 33.3 PERCENT TO 10 PERCENT. TIRE MANUFACTURERS WILL BE PROTECTED BY THE IMPOSITION OF LICENSING FOR MOST TIRE IMPORTS.

6. COMMENT:

(A) SHAGARI'S STATEMENT WAS FIRST OCCASION THAT AN OFFICIAL FMG SPOKESMAN HAS REVEALED PUBLICLY WHAT ANALYSIS LONG AGO CONCLUDED-- THAT BOTH BUDGET AND BALANCE OF PAYMENTS ARE IN SURPLUS. THIS NEW CONFIDENCE OF FMG IN DEALING WITH ITS FINANCIAL AFFAIRS COULD HAVE FAR-REACHING EFFECT. EMBASSY HAD BELIEVED THAT POOR-MOUTHING OF FINANCIAL SITUATION WAS DESIGNED TO HOLD WOULD- BE SPENDERS IN CHECK, IN MILITARY AND OTHER PARTS OF GOVERNMENT. PERHAPS GOWON NOW FEELS THAT SUCH DEVICES ARE NO LONGER NECESSARY BECAUSE PEOPLE NOW HAVE FAITH IN HIS PROGRAMS AND POLICIES. IT WORTH NOTING THAT IN PROJECTING THIS BUDGET FMG STUCK TO BASIC PRIORITIES DEVELOPED OVER LAST FEW YEARS. THERE IS NO SPURT IN SHOWY PROJECTS OR MILITARY EXPENDITURES. RATHER, FUNDAMENTAL EMPHASIS REMAINS ON BUILDING UP COUNTRY'S BASIC INFRASTRUCTURE, PREPARATORY TO MOVE RAPID INDUSTRIALIZATION.

(B) WHILE BUDGET SETS FORTH POLICIES AND PROGRAMS FOR A SIGNIFICANT STEP UP IN DEVELOPMENT EFFORT, IT NEVERTHELESS REFLECTS A BASICALLY CONSERVATIVE FINANCIAL POLICY. IT IS NOT AN EFFORT TO FORCE PACE OF DEVELOPMENT; RATHER, IT IS AN ATTEMPT TO GUIDE AND CONTROL IT. THE ECONOMY WILL NOT BE STRAINED TO POINT WHERE IT IS DIFFICULT TO PAY BILLS OR WHERE SHORTAGES MIGHT THREATEN. SPECIFIC MEASURES TO HELP LOCAL INDUSTRY. REDUCE COST OF IMPORTS, PROMOTE INDIGENIZATION AND REASSURE FOREIGN INVESTORS ALL REFLECT THIS APPROACH. LIMITED OFFICIAL USE

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PAGE 04 LAGOS 02750 051622 Z

NIGERIANS WILL BE BETTER OFF BY COOPERATING WITHIN FRAMEWORK OF GOWON'S POLICY. FOREIGNERS CAN TRADE MORE EASILY AND COMFORTABLY WITH A STABLE AND PROSPERING NIGERIA. FOREIGN INVESTORS ARE ASSURED OF REASONABLE FACILITIES FOR REPATRIATING THEIR EARNINGS AND

CAPITAL.
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